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FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Independent audits and management reviews of activities of the United Nations system

Report of the Secretary-General

1. Early in 1993, the Chairman of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency addressed a letter to the Secretary-General of the United Nations, in his capacity as Chairman of the Administrative Committee on Coordination (ACC), conveying the views of the Panel on two related subjects: independent audits and management reviews of activities of the United Nations system on behalf of individual States. The Secretary-General referred the letter to ACC for examination in view of the significance of these issues. Transmitted herewith, as an annex to the present report is the statement of ACC.

2. For the United Nations itself, the views and recommendations of the Panel of External Auditors are particularly timely and pertinent. With increasing frequency in recent years, the United Nations has received from potential donors, either individual Member States or intergovernmental organizations, offers of voluntary contributions which are subject to conditions on the granting of audit access to, or the conduct of management reviews by, representatives of the donor.

3. The Secretary-General has consistently declined to accept contributions to which such conditions have been attached, on the grounds that the conditions are incompatible with the provisions of Article XII of the Financial Regulations and Rules of the United Nations on external audit, and in particular, financial regulation 12.6, which provides that the Board of Auditors shall be solely responsible for the conduct of the audit. Some donors, however, have maintained their insistence on these conditions and, as a result, it has not been possible for the United Nations to accept the proposed contributions, however urgent the need for additional resources.

4. It should be noted that all potential donors in the latter category are either governmental agencies of States Members of the United Nations or institutions composed of Member States of the Organization. For that reason, the Secretary-General recommends that the General Assembly should endorse the views and recommendations of the Panel of External Auditors, as supported by ACC, with a view to persuading potential donors to reconsider their position.

ANNEX

Independent audits and management reviews of activities of the United Nations system

Statement by the Administrative Committee on Coordination

1. On 18 January 1993, the Chairman of the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency addressed a letter to the Secretary-General of the United Nations in his capacity as Chairman of the Administrative Committee on Coordination (ACC). The letter contained views put forward by the Panel at its thirty-fourth session, held on 23 and 24 November 1992, on two related issues: independent financial audits on behalf of donors of extrabudgetary funds to organizations of the United Nations system, and management reviews of the activities of organizations of the system on behalf of individual States. The Secretary-General has referred the letter to ACC for examination in view of the significance of these issues.

2. In the letter the Chairman of the Panel confirms its recognition that those who provide funds to organizations of the system have legitimate interests in seeking assurances about the funds and in expecting transparency in the organizations' presentation of financial information. He also confirms the Panel's position that, in principle, providers of funds should be prepared to rely on the competence of the organizations and the normal internal and external audit arrangements.

3. The Chairman of the Panel draws attention to a number of undesirable features of independent audits of extrabudgetary funds. These include the difficulty of separating examinations of individual funds from the audit of accounts and control systems in general; the further difficulty of segregating information on individual activities from confidential information on other activities; the misleading perception of the accounting system as a whole which may result from examination of a single area; and the inefficiency of special audits in relation to the use of resources, especially where activities of a largely similar nature are concerned.

4. In connection with more wide-ranging management reviews of organizations' activities, the Chairman of the Panel cites the provisions governing external audit which are included in organizations' financial regulations. Those provisions stipulate that the external auditors appointed by organizations' governing bodies are solely responsible for the conduct of audits, while also specifying that governing bodies may request the external auditors to carry out special reviews and report separately on the results. In the Panel's opinion, special reviews by other audit bodies have an impact on the authority and independence of the appointed external auditors. Where they are required, such reviews should be approved in advance by the governing body concerned.

5. In the closing paragraphs of his letter the Chairman of the Panel adds certain practical considerations raised by the Panel. These concern, in particular, the additional audit resources that may be required in cases where appointed external auditors undertake special audits and reviews. In addition,

the Chairman comments on the need for the other bodies carrying out special examinations to consult with the appointed external auditors on liaison, timing and reporting arrangements.

6. ACC is familiar with the problems posed by requests for special audits and management reviews. As the Chairman of the Panel notes, such requests are received by organizations of the system with increasing frequency. His letter is thus particularly timely, and ACC is grateful to him and to the Panel for their statement of views and recommendations on this important matter.

7. ACC fully shares the Panel's concerns and endorses its recommendations with regard to independent audits of funds provided for organizations' extrabudgetary activities. Like the Panel, it considers that the donors of such funds should be prepared to rely on the competence of the organizations and the efficiency of their normal internal and external audit arrangements. ACC would point out, moreover, that all organizations' financial controls are subject to the continuing scrutiny of their Member States, acting through their governing bodies. Bearing in mind also the practical disadvantages which the Panel has identified, ACC wishes to record that it is not in favour of independent audits of individual funds.

8. As indicated above, the Panel's position with regard to management reviews is that such reviews fall within the competence of organizations' appointed external auditors, either as a part of their continuing responsibilities or in response to special requests by governing bodies. ACC notes that this position allows for exceptions in cases where an external management review is approved in advance by the governing body concerned. For its own part, ACC endorses the principles stated by the Panel, and also believes that a degree of flexibility is desirable for the acceptance of external management reviews in exceptional circumstances. Where such management reviews are accepted, ACC agrees that consultations should take place with the Organization's external auditor as recommended in the letter of the Chairman of the Panel.